

Message Text

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ACTION EUR-25

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NSAE-00 PA-04 RSC-01 PRS-01 SP-03 USIA-15 TRSE-00

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FM USMISSION NATO

TO SECSTATE WASHDC 7722

INFO AMEMBASSY MOSCOW

C O N F I D E N T I A L SECTION 1 OF 2 USNATO 5154

C O R R E C T E D C O P Y (THROUGHOUT TEXT)

E.O. 11652: GDS

TAGS: ECON,EFIN,UR,NATO

SUBJECT: ECONADS: ESTIMATE OF SOVIET BALANCE OF PAYMENTS
IN CONVERTABLE CURRENCIES

REF: USNATO 5082

1. ECONOMIC DIRECTORATE HAS ISSUED FINAL WORKING PAPER ON SOVIET
BALANCE OF PAYMENTS (TEXT FOLLOWING PARA) WHICH INCORPORATES
MODIFICATIONS SUGGESTED BY ECONADS AT SEPTEMBER 19 MEETING. AS
AGREED AT THAT MEETING, ECONOMIC DIRECTORATE WILL SUBMIT
REPORT AS A C-M FOR INCLUSION IN NAC AGENDA PROVIDED NO DELEGATION
SUGGESTS FURTHER CHANGES BY OCTOBER 3.

2. QUOTE:

AN ESTIMATE OF THE SOVIET BALANCE OF PAYMENTS IN
CONVERTIBLE CURRENCIES: PRINCIPAL FEATURES
AND IMPLICATIONS

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DRAFT SUMMARY REPORT TO THE COUNCIL

THE FOLLOWING POINTS STEM FROM THE MAIN FINDINGS OF A
PANEL OF EXPERTS FROM CAPITALS OF ALLIANCE COUNTRIES WHO

CONSIDERED THE RECENT DEVELOPMENT AND FUTURE PROSPECTS OF THE SOVIET BALANCE OF PAYMENTS IN HARD CURRENCIES. THIS SUBJECT WAS DISCUSSED AT A REINFORCED MEETING OF THE ECONOMIC COMMITTEE ON 11TH JULY.

2. THE EXPERTS STRESSED FROM THE OUTSET THAT SOVIET FAILURE TO PUBLISH COMPREHENSIVE PAYMENTS DATA (WHICH HAS COMPLICATED THE QUESTION OF SOVIET ACCESS TO INTERNATIONAL ORGANIZATIONS) HAS OBSCURED INDIVIDUAL ITEMS IN THE BALANCE (E.G. GOVERNMENT SERVICES, OTHER "INVISIBLES", SOME CAPITAL FLOWS). THE EXPERTS CONCLUDED, HOWEVER, THAT IMPORTANT ELEMENTS ARE SUFFICIENTLY CLEAR TO PERMIT AN ESTIMATE OF THE GENERAL STRUCTURE OF THE SOVIET EXTERNAL BALANCE AND OF RECENT SIGNIFICANT CHANGES IN IT. IN THIS CONNECTION, THE PERIODIC REPORTS OF THE ECONOMIC COMMITTEE BASED ON NOTIFICATIONS BY CAPITALS CONCERNING SOVIET DRAWINGS AND REPAYMENTS OF EXPORT CREDITS HAVE BEEN OF CONSIDERABLE RELEVANCE AND ASSISTANCE.

3. THE RISING PRICES OF OIL, GOLD, AND RAW MATERIALS THAT THE USSR EXPORTS HAVE RECENTLY GIVEN THIS COUNTRY A STABILITY THAT IT HAS RARELY EXPERIENCED IN REGARD TO EXTERNAL FINANCES. IT CAN ACCORDINGLY IMPORT MORE, SOMETIMES PAYING CASH, SOMETIMES HAVING RECOURSE TO WESTERN CREDITS THAT ARE ALL THE EASIER TO OBTAIN BECAUSE ITS SOLVENCY HAS BEEN REINFORCED. BUT THE POSITION OF THE ROUBLE VIS-A-VIS THE INTERNATIONAL MONETARY SYSTEM IS UNCHANGED; SPECIFICALLY THE CONVERTIBILITY OF SOVIET MONEY INTO WESTERN HARD CURRENCIES IS STILL FAR FROM BEING POSSIBLE.

RECENT DEVELOPMENTS

4. THE EXPERTS HAVE DRAWN UP THE FOLLOWING TABLE OF ESTIMATES FOR THE PRINCIPAL ITEMS IN THE BALANCE OF PAYMENTS FOR THE YEARS 1972, 1973 AND 1974:

	(\$ MILLION)		
1972(A)	1973(A)	1974	
	(ESTIMATED)		
EXPORTS(B)(C)	PLUS2,815	PLUS4,805	PLUS7,000 TO PLUS8,0
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IMPORTS(B)(C)	-4,175	-6,525	-6,000 TO -7,500
TRADE BALANCE	-1,360	-1,710	PLUS1,000
INVISIBLES(NET)	(PROBABLY SMALL DEFICIT)(D)		
	PLUS300	PLUS965	

5. (I) THE SUBSTANTIAL COMMERCIAL DEFICIT OF 1972 (67.4 PCT COVERAGE OF IMPORTS BY EXPORTS), INCREASED IN 1973 (73.6 PCT COVERAGE) BUT SHOULD MAKE WAY IN 1974 FOR AN APPRECIABLE SURPLUS. SOVIET EXPORT PROCEEDS MAY RISE MORE THAN 100 PCT AS A CONSEQUENCE OF PRINCIPALLY OF PRICE INCREASES, E.G. FOR OIL.

(II) SALES OF ARMS TO COUNTRIES OF THE NEAR AND MIDDLE

EAST AGAINST PAYMENT IN CONVERTABLE CURRENCIES
CONSTITUTES AN ITEM WHICH IS DIFFICULT TO QUANTIFY
BUT OF CONSIDERABLE IMPORTANCE.

(III) PROCEEDS FROM SALES OF GOLD TRIBLED LAST YEAR AS A
RESULT OF INCREASES IN BOTH VOLUME AND VALUE,
COMPENSATING AND EVEN EXCEEDING THE INCREASE IN
THE TRADE DEFICIT. IN 1974 THEY SHOULD REMAIN AT
NEARLY THE SAME LEVEL AS IN 1973, THUS AUGMENTING
THE EXPECTED TRADE SURPLUS.

(A) RATE OF EXCHANGE: 1 RUBLE-US\$1.215 IN 1972 AND US\$1.3449
IN 1973

(B) BASED ON RUBLE DATA IN THE OFFICIAL SOVIET YEARBOOK ON TRADE
STATISTICS (VNESHNYAYA TORGOVLYA SSR ZA 1973 & 9\$). FIGURES
DIFFER SOMEWHAT FROM WESTERN DATA BECAUSE OF (I) LEAD-TIME
BETWEEN SHIPMENTS AND DELIVERIES; (II) DIFFERENT METHODS OF
VALUATION (C.I.F. VS. F.O.B., INCLUSION VS. EXCLUSION OF RE-
EXPORTS); AND (III) DIFFERENT METHODS OF ESTIMATING AVERAGE
DOLLAR EXCHANGE RATES FOR EACH YEAR

(C) THE COUNTRIES INCLUDED AS HARD CURRENCY TRADING PARTNERS OF THE
USSR ARE THE OECD COUNTRIES (MINUS GREECE, ICELAND, PORTUGAL,
TURKEY AND FINLAND), IRAQ, KUWAIT, LIBYA AND SOME 40 DEVELOPING
COUNTRIES (INCLUDING BRAZIL, MALAYSIA, PAKISTAN AND NIGERIA).
FOR A DETAILED LIST OF COUNTRIES SEE AC/127-WP/378

(D) GOVERNMENT SERVICES IN PARTICULAR AND INTEREST PAYMENTS ARE
BELIEVED TO HAVE BEEN NET DEFICITS

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6. IMPORTS FROM THE HARD CURRENCY AREA ADVANCED STRONGLY
(PLUS 33 PERCENT) IN 1973. THEY ARE EXPECTED TO REMAIN AT A RELATIVELY
Y

HIGH LEVEL (AT LEAST \$6.0 BILLION) THIS YEAR, THOUGH THE COMMODITY COMPOSITION WILL SHIFT SOMEWHAT FROM GRAIN TO EQUIPMENT BULXZE#9)9&6. NEW SOVIET ORDERS FOR WESTERN (1) MACHINERY ARE THUS FAR BELOW THE RECORD-BREAKING 1973 LEVEL IN TERMS OF ANNUAL RATES, BUT CURRENT CONTRACT NEGOTIATIONS SUGGEST THAT THE 1974 LEVEL MAY EXCEED THAT OF 1973. THE SHARE OF NATO COUNTRIES IN SOVIET COMMERCE IN HARD CURRENCIES REMAINS PROMINENT, ACCOUNTING FOR OVER THREE-QUARTERS OF THE TRADE DEFICIT AND OVER TWO-THIRDS OF THE VALUE OF GOODS EXCHANGED IN 1973.

7. THE SOLVENCY OF THE USSR HAS BEEN REINFORCED. DURING THE CURRENT YEAR, THE USSR HAS SHOWN AN INCREASED TENDENCY TO VHM R0); FOR EXPENSIVE PURCHASES OF WESTERN PLANT AND EQUIPMENT THAT HAD FORMERLY BEEN OBTAINED ALMOST EXCLUSIVELY UNDER LONG-TERM CREDITS. SOVIET BORROWING FROM NON-COMMUNIST INDUSTRIALIZED COUNTRIES INCLUDING JAPAN NEVERTHELESS CONTINUED TO RISE LAST YEAR, PROBABLY EXCEEDING \$1.7 BILLION IN DRAWINGS ON GUARANTEED AND TO A SMALL EXTENT NON-GUARANTEED EXPORT CREDITS. THE USSR CONFIDENTIAL

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ALSO REPORTEDLY BORROWED FROM THE EURO-DOLLAR MARKET. IN VIEW OF THE AMPLE SOVIET FOREIGN EXCHANGE EARNINGS, IT MAY SEEM SURPRISING THAT THE USSR CONTINUES TO ACQUIRE OBVIOUSLY BENEFIT THE USSR. OTHER REASONS FOR CONTINUING SOVIET INTEREST IN WESTERN EXPORT CREDITS MIGHT WELL BE, ON THE ONE HAND, ITS RELATIVELY LIGHT DEBT BURDEN, ON THE OTHER THE CLOSE RELATIONSHIP OF WESTERN CREDITS TO LARGE-SCALE, SELF-LIQUIDATING DEVELOPMENT PROJECTS WHERE REPAYMENTS CAN BE MADE WITH GOODS.

PROSPECTS

8. AFTER 1974, INCREASES IN THE VALUE OF EXPORTS AND IMPORTS WILL PROBABLY SLOW DOWN TO A MORE MODERATE PACE UNLESS WORLD COMMODITY PRICES AGAIN RISE DRAMATICALLY. WHILE SUCH PRICE FLUCTUATIONS REMAIN UNPREDICTABLE, SOVIET EXPORT PROSPECTS ARE FAVOURABLE SINCE THE USSR IS A MAJOR REPOSITORY OF MINERALS IN AN ERA OF CONSIDERABLE UNCERTAINTY OR SCARCITY. MOREOVER, IN 1975 GOLD SALES OUT OF CURRENT PRODUCTION COULD RISE TO AS HIGH AS \$1,300 MILLION AT CURRENT PRICES(2), THE TONNAGE SOLD ABROAD BY THE USSR MAY GROW IN VOLUME IN RESPONSE TO HIGH GOLD PRICES; PRODUCTION COULD INCREASE BY 60 PERCENT BY 1980 WITH THE EXPLOITATION OF NEW DEPOSITS. FINALLY, REPAYMENTS BY DEVELOPING COUNTRIES OF PAST SOVIET CREDITS COVERING MILITARY AID ARE EXPECTED TO RISE TO APPROXIMATELY \$500-750 MILLION IN HARD CURRENCIES IN 1975 FROM AN ESTIMATED \$250 MILLION IN 1973.

9 THE PROSPECTS FOR IMPROVEMENT IN THE SOVIET BALANCE OF PAYMENTS IN CONVERTIBLE CURRENCIES ARE LARGELY BASED ON:

(I) A FAVOURABLE CHANGE IN THE SOVIET TERMS OF TRADE;

(II) INCREASED PRODUCTION AND EXPORT OF GOLD; AND

(III) INCREASED POSSIBILITIES OF N PFAZMOMS ON A
HARD CURRENCY PAYMENTS BASIS.

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(1) IN THE PAPER THE TERM "WESTERN" REFERS TO NON-COMMUNIST
INDUSTRIALIZED COUNTRIES SUCH AS JAPAN, AUSTRALIA, NEW
ZELAND.

(2) THE USSR DOESNOT PUBLISH ITS GOLD PRODUCTION FIGURES.
CERTAIN WESTERN ESTIMATES PUT IT (IN METRIC TONS) AT
260 IN 1972, 265 IN 1973, 265 IN 1974 AND 350 IN 1975.

UNQUOTE.

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